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Implications of the GATT Agreement for Iowa Agriculture

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committees that can make binding assessments. In the past, countries had used food safety and health regulations to restrict imports which may or may not have posed heath problems. This discipline seeks to insure that scientific fact is used to set standards.

In addition to the standard agreements on the four disciplines, many side agreements were also negotiated. The specifics of the GATT agreement and side agreements listed by country are found in the CARD GATT Research Paper 94-GATT 22 entitled "Uruguay Round Agreement on Agriculture: Summary of Commitments from Selected Country Schedules."

Implications of the GATT Agreement for Iowa Agriculture

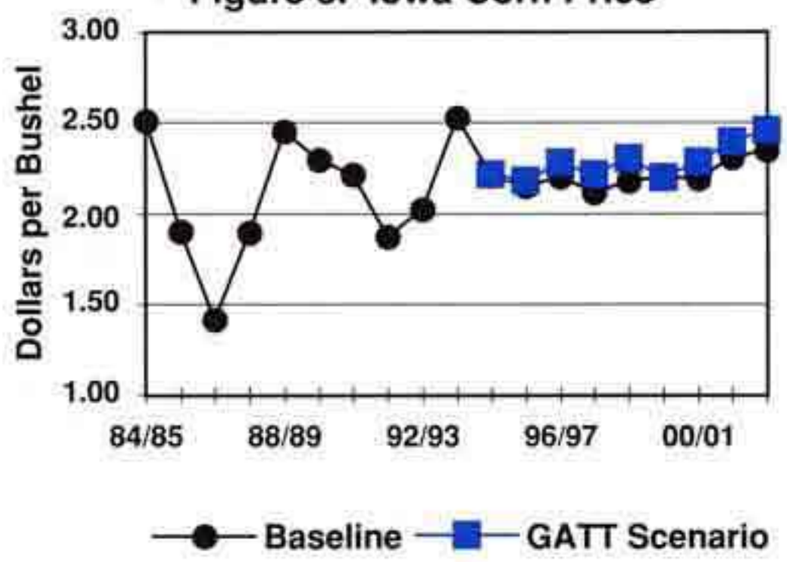
(John R. Kruse 515-294-6183)

The FAPRI analysis indicates that nearly all U.S. agricultural commodities benefit under GATT, although some commodities experience larger impacts than others. CARD extended the FAPRI analysis to commodities important to Iowa, such as corn, soybeans, and pork and found that all are significant winners under the Uruguay Round Agreement.

Beginnning with corn, Iowa producers would realize increases in demand from two sources. The first source is increased exports. Because the European Union (EU) has committed to maintaining corn imports of 98 million bushels, and the United States has a comparative advantage in corn production, corn exports from the United States are expected to grow. In addition, under GATT, increased incomes around the world are expected to increase livestock production, further raising the demand for U.S. corn. In total, with full implementation of GATT, U.S. corn exports are expected to increase an average of 121 million bushels, over the 2000 to 2002 period compared with baseline levels.

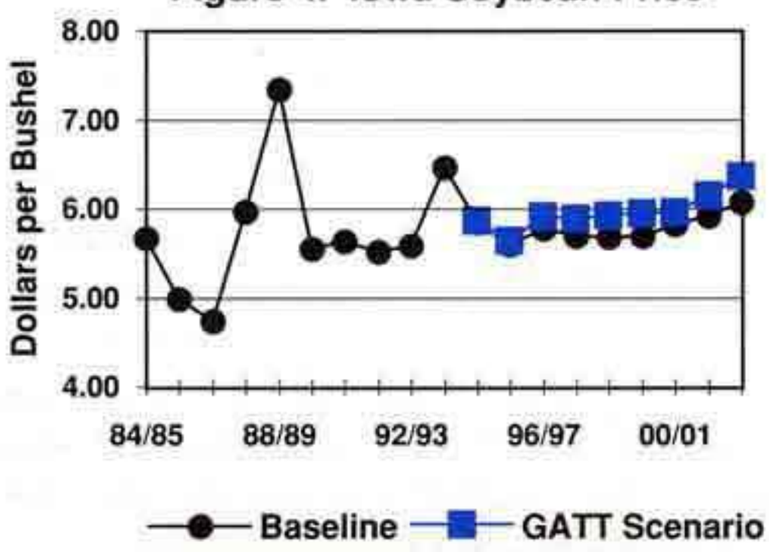
The second source is greater domestic demand for corn through increased livestock production. With higher incomes around the world, more livestock exports are expected, particularly for pork. In total, U.S. domestic consumption is expected to increase by an average of 49 million bushels compared with baseline levels over the 2000 to 2002 period. With the stronger demand for corn, prices are expected to increase. However, as prices increase, the Secretary of Agriculture is expected to reduce the Acreage Reduction Program (ARP) rate from the 7.5 percent figure projected in the baseline. Beginning in 1999, higher corn prices from GATT are expected to motivate the Secretary to reduce the ARP rate to 5.0 percent. Reducing the ARP increases production in 1999 and drops prices back down to baseline levels. However, the momentum in exports and domestic demand increases prices above baseline levels after 1999. In Iowa, stronger prices and a reduction in the ARP rate translated into a significant increase in corn acres planted. When GATT is fully implemented, corn acreage planted in Iowa is expected to average 295 thousand acres (2.5 percent) higher than baseline levels with corn prices averaging $0.09 per bushel higher over the same period (see Figure 3).

Figure 3. Iowa Corn Price



Iowa soybeans are also expected to benefit from GATT, but not as much as corn. Relatively few trade barriers exist for soybeans and consequently, soybean exports are not expected to increase significantly under GATT. However, despite a reduction in EEP subsidies for U.S. soybean oil, increases in income around the world from GATT are expected to offset the reduction in subsidized exports and U.S. soybean oil exports are expected to increase. Soybean prices in Iowa are expected to average 20 cents per bushel higher over the 2000 to 2002 period when GATT is fully implemented (see Figure 4). With competition from corn, soybean planted acres are expected to remain at baseline levels.

Figure 4. Iowa Soybean Price



The Iowa pork sector benefits most from the GATT agreement. U.S. producers are expected to fill the gap created by the EU export reductions and increased market access, particularly to non-EU Western Europe, Japan, and Hong Kong. The U.S. net pork trade position improves by nearly 1 billion pounds, 6 percent of production by 2002, supporting breeding herd increases of almost 7 percent (see Figure 5). Barrow and gilt prices average 2.7 percent higher than baseline levels over the 1995 to 1999 phase in period and 1.6 percent higher than baseline levels over 2000 to 2002 period.

Figure 5. Iowa Hog Price

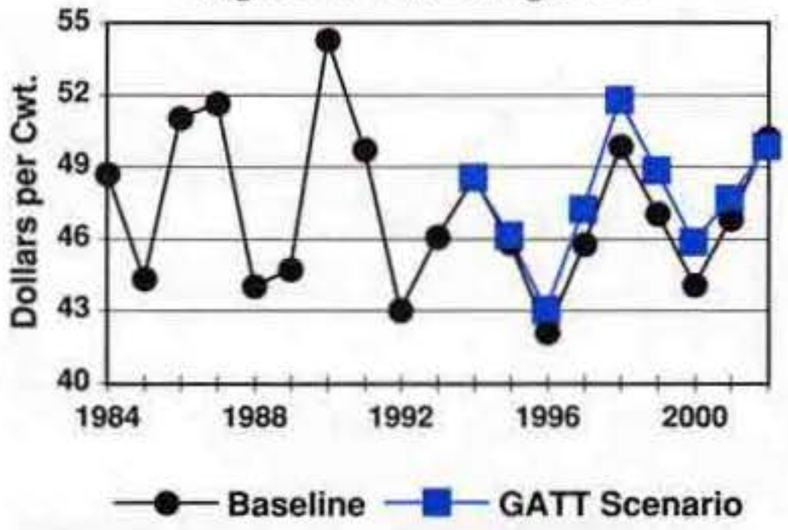
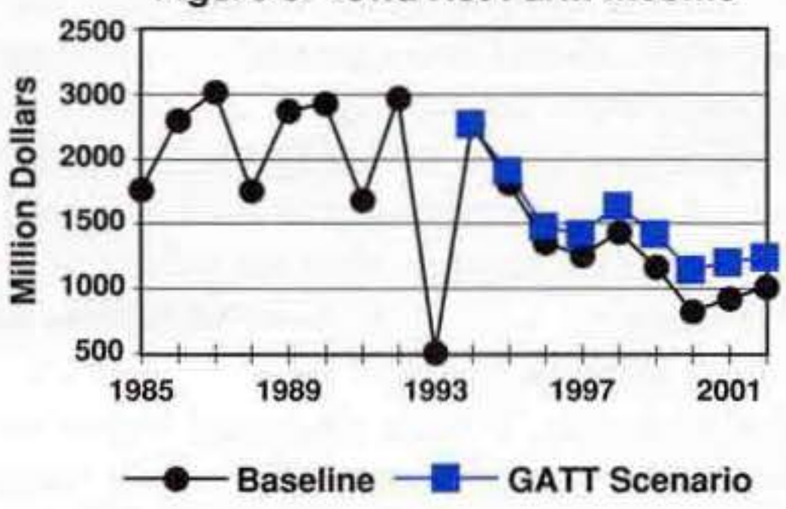


Figure 6. Iowa Net Farm Income



Corn and hog cash receipts account for most of the increase in Iowa cash receipts. By 2002, corn receipts are $184.1 million higher than the baseline and hog cash receipts are $110.8 million higher. Soybean and cattle cash receipts also benefit from GATT with an $83.1 million increase in soybean receipts by 2002 and an expected increase of $92.6 million in cattle cash receipts by 2002. Of course with higher corn and hog production, Iowa farm production expenses are also expected rise. Total production expenses are expected to be $221.1 million higher by 2002, an increase of 2.0 percent. The bottom line for Iowa net farm income shows an increase of $225.5 million by 2002, averaging $205.2 million higher each year over the 1995 to 2002 period (see Figure 6).

The Conservation Reserve Program

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The Conservation Reserve Program (CRP) was originally created in the 1985 Food Security Act to "assist owners and operators of highly erodible cropland in conserving and improving the soil and water resources of their farms or ranches." In exchange for a ten-year contract removing land from agricultural production and devoting it to a conserving use, farmers were to be paid a per acre payment each year for ten years. In addition, a cost share program was set up to assist producers with the cost of converting the land from agricultural production to conserving uses. The program was legislated in the 1985 Farm Bill to begin in 1986 with 40 to 45 million acres bid into the program by 1990. In addition, yearly goals were set up for the amount of acreage bid into the program. By the end of the 1986 crop year, 5 million acres were to be bid into the program. Before the end of the 1987 crop year, 15 million acres were to be enrolled. A total of 25, 35, and 40 million acres were to be enrolled by the end of the 1988, 1989, and 1990 crop years, respectively.

From 1985 to 1990 the program was administered at the county ASCS level. Counties within a state were grouped together and a multicounty maximum acceptable rental rate was assigned to each group. As long as the bid submitted by the producer was lower than the multicounty maximum acceptable rental rate and the land was "highly erodible", the bid was accepted. With the enrollment goals legislated in the 1985 Farm Bill, ASCS found itself looking for acres to enroll. To comply with the law, some acreage with only marginal erodibility was accepted into the program. In addition, the multicounty maximum acceptable rental rates were more competitive with wheat returns in the western United States than with corn and soybean returns in the Midwest. Subsequently, a large proportion of the acreage bid into the CRP program was wheat acreage. Over the 1985 to 1990 period, 30 percent of the acreage bid into the program was wheat base compared with only 11 percent of the acreage being corn.

Enrollment in the CRP program never reached 40 million acres. Concerns over the federal deficit reduced appropriations for the CRP program and only 33.9 million acres were bid into the program over the 1985 to 1990 period. With passage of the 1990 Food, Agriculture, Conservation, and Trade Act (FACTA),